

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-10 FRB-03 INR-10 IO-13 NEA-10 NSAE-00 ICA-11
OPIC-03 SP-02 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
XMB-02 PA-01 STR-07 /120 W
-----072334 101843Z /50

R 101737Z APR 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 4968
TREASURY DEPT WASHDC
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY

TREASURY PASS M. RYSS; EX-IM BANK PASS ALBRIGHT

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: FINANCING OF ROLLS-ROYCE ENGINE SALE FOR PANAM
PLANES.

REF: MCCOWN-ALBRIGHT TELCON

SUMMARY: CONVERSATIONS WITH U.K. OFFICIALS CONCERNED
WITH EXPORT CREDITS INDICATE THAT THERE WAS NO FORMAL NO-
NOTIFICATION OF EX-IM BANK OF THE TERMS OF FINANCE OF THE
ROLLS-ROYCE SALE NOR WERE THERE GROUNDS TO SO NOTIFY.
ECGD WILL PROVIDE COVER AGAINST INSOLVENCY OF THE BUYER
FOR SALES OF BOTH AIRFRAMES AND ENGINES. THIS COVER WILL
BE ON 15-YEAR FINANCING. ECGD WILL ALSO PROVIDE A DIRECT
BUYER CREDIT GUARANTEE FOR THE FINANCE OF THE ENGINES.
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SOME LEGAL DETAILS ARE STILL BEING WORKED OUT. END
SUMMARY

1. U.K. OFFICIALS CONCERNED WITH EXPORT CREDIT STATED
THAT THE ECGD USED THE OECD PRIOR CONSULTATION AGREEMENT
IN PRE-NOTIFYING ITS TERMS. THE U.S. IS NOT A SIGNATORY
TO THIS AGREEMENT AND SO WAS NOT NOTIFIED. IN FACT, BY

THE NATURE OF THINGS, THE U.S. COULD NOT BE OFFERING EXPORT FINANCE IN COMPETITION TO E.C.G.D., AND SO WOULD NOT BE NOTIFIED AUTOMATICALLY.

2. IT WAS CONFIRMED THAT AN APRIL 7 ARTICLE IN THE FINANCIAL TIMES RELIABLY DESCRIBED THE TERMS THAT ECGD IS OFFERING, AS WELL AS THE PARTS OF THE PACKAGE WHICH ARE, AS YET, NOT NAILED DOWN. THIS ARTICLE FOLLOWS: QUOTE: BRITAIN'S EXPORT CREDITS GUARANTEE DEPARTMENT (ECGD) HAS CONFIRMED THAT IT HAS AGREED TO PROVIDE CREDIT INSURANCE COVER FOR THE ENTIRE TRISTAR AIRCRAFT ORDER PLACED WITH LOCKHEED BY PAN AMERICAN AIRWAYS -- NOT JUST FOR THE ROLLS-ROYCE SHARE OF THE CONTRACT. BUT THE MANNER IN WHICH THIS INSURANCE COVER WILL BE PROVIDED HAS YET TO BE DECIDED.

THE ROLLS-ROYCE RB211 ENGINES FOR THE 12 TRISTARS ORDERED BY PAN AM WILL ACCOUNT FOR 115 MILLION POUNDS, LESS THAN HALF OF THE TOTAL CONTRACT VALUE OF 250 MILLION POUNDS. ECGD WILL BE PROVIDING A DIRECT BUYER CREDIT GUARANTEE FOR THE FINANCING OF THIS PART OF THE CONTRACT.

FOR THE AIRFRAME PART OF THE CONTRACT ECGD IS PROVIDING ONLY INSURANCE COVER AGAINST THE INSOLVENCY OR DEFAULT OF THE BUYER -- PAN AM. THIS IT UNDERTAKES UNDER THE NORMAL INSURANCE UNDERWRITING SIDE OF ITS BUSINESS WHICH OPERATES ON A SELF-FINANCING BASIS.

INSURANCE COVER SUCH AS THIS IS NORMALLY FOR CONTRACT LIMITED OFFICIAL USE

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UNDERTAKEN BY U.K. COMPANIES BUT IS SOMETIMES EXTENDED TO COVER THE FOREIGN CONTENT OF THE OVERALL CONTRACT. THE INSURANCE COVER BEING PROVIDED FOR THE TRISTAR CONTRACT IS UNUSUAL IN THAT THE FOREIGN CONTENT ACCOUNTS FOR THE LARGER SHARE OF THE CONTRACT.

IT IS UNLIKELY THAT THE BRITISH GOVERNMENT WOULD HAVE AGREED TO ALLOW ECGD TO PROVIDE THE INSURANCE COVER FOR THE ENTIRE CONTRACT HAD THE ROLLS-ROYCE ENGINES DEAL NOT BEEN CONSIDERED TO BE IN THE NATIONAL INTEREST.

THE PROVISION OF INSURANCE COVER FOR THE ENTIRE DEAL IS BELIEVED TO HAVE BEEN A VITAL ELEMENT IN SECURING THE ROLLS-ROYCE ENGINES CONTRACT. ALSO CRUCIAL WAS ECGD'S AGREEMENT TO MATCH THE FINANCING TERMS FOR THE ENGINES SIDE OF THE DEAL WITH THOSE OF ROLLS-ROYCE' U.S. COMPETITORS.

IT IS UNDERSTOOD THAT IN DOING SO ECGD HAS HAD TO BEND THE RULES OF THE OECD AGREEMENT ON EXPORT CREDITS FOR AIRCRAFT SALES SINCE THE LOANS BEING OFFERED BY THE COMPETITORS WERE UNDERSTOOD TO BE FOR 15 YEARS WHEREAS THE OECD AGREEMENT STIPULATES THAT THE MAXIMUM TERM IS 10 YEARS.

THE OVERALL ARRANGEMENT IS TO THE U.K.'S ADVANTAGE IN

THAT THE INSURANCE COVER GIVES THE U.K. FIRST MORTGAGE
CLAIM ON THE ENTIRE AIRCRAFT RATHER THAN THE ENGINES

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ALONE SHOULD THE BUYER -- PAN AM -- DEFAULT ON PAYMENT OR
BECOME INSOLVENT.

THE ECGD INSURANCE COVER IS ALSO BEING INTERPRETED AS
AN ADVANTAGE TO PAN AM AS FAR AS ITS FINANCING OF THE DEA
IS CONCERNED. BUT QUITE HOW THIS WILL BE ACHIEVED IS
FAR FROM CLEAR.

NORMALLY THE INSURANCE COVER IS TAKEN OUT BY THE SUP-
PLIER. IN THE FIRST PLACE THIS COVERS HIM AGAINST NON-
PAYMENT BY THE BUYER BUT ALSO HELPS HIM TO RAISE FINANCE
FROM THE BANKS BY USING HIS ECGD POLICY AS COLLATERAL.
AN EXTENSION OF THIS IS THE DIRECT BANK GUARANTEES SCHEME
WHICH PROVIDES ACCESS TO CONCESSIONARY FINANCE FOR WHICH
THE EXPORTER PAYS AN ADDITIONAL PREMIUM.

HOWEVER THE ECGD SCHEME IS GENERALLY CONFINED TO U.K.
EXPORTERS AND AS SUCH IT WOULD ONLY APPLY TO THE ROLLS-
ROYCE PART OF THE TRISTAR DEAL. ECGD IS THEREFORE FACED
WITH THE PROBLEM OF DECIDING TO WHOM IT SHOULD GRANT
INSURANCE COVER FOR THE REST OF THE CONTRACT.

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IT IS POSSIBLE THAT THE CONTRACT COULD BE ARRANGED IN SUCH A WAY THAT ROLLS-ROYCE ACTS AS THE MAIN CONTRACTOR BUT THIS SEEMS UNLIKELY GIVEN THAT IT IS ESSENTIALLY A SUBCONTRACTOR IN THE DEAL. EQUALLY IT IS UNLIKELY THAT THE BRITISH GOVERNMENT, THROUGH ECGD, WOULD AGREE TO PROVIDE INSURANCE FOR LOCKHEED, THE MAIN SUPPLIER, GIVEN THAT IT IS A U.S. COMPANY.

IN ANY EVENT, NEITHER ALTERNATIVE WOULD BE OF ANY DIRECT ADVANTAGE TO PAN AM WHICH IT WOULD APPEAR IS AN ESSENTIAL ELEMENT IN THE DEAL. NEITHER COULD ECGD GRANT PAN AM A DIRECT BUYER CREDIT FOR THE AIRFRAME PART OF THE DEAL SINCE THIS WOULD MEAN PROVIDING DIRECT SUBSIDISED FINANCE FOR A DEAL BETWEEN TWO U.S. COMPANIES.

WHAT SEEMS MOST LIKELY THEREFORE IS THAT SOME ARRANGEMENT WILL BE WORKED OUT WHEREBY THE INSURANCE COVER IS GRANTED TO THE U.S. BANKS INVOLVED IN THE FINANCING OF THE AIRFRAMEPART OF THE CONTRACT.

THIS WOULD BE AN UNPRECEDENTED MOVE BUT WOULD PRESUMABLY HAVE THE COSMETIC ADVANTAGE IN THAT THE BRITISH GOVERNMENT WOULD NOT APPEAR TO BE DIRECTLY ASSISTING IN THE FINANCING OF WHAT WOULD BE AN ESSENTIALLY INTERNAL U.S. DEAL.

NEVERTHELESS THIS IS PRECISELY WHAT IT WOULD BE DOING FOR ALTHOUGH IT WOULD NOT BE PROVIDING SUBSIDISED FINANCE AS SUCH, THE INSURANCE POLICY ITSELF WOULD PROVIDE COLLATERAL FOR RAISING FINANCE.

GRANTING THE COVER THROUGH THE BANKS WOULD ALSO MEAN THAT PAN AM COULD HAVE ACCESS TO THE FINANCE WHICH IT NEEDS.

BREWSTER

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